recommendation

Austrian Council for Research and Technology Development

19.12.2016

austrian council

Recommendation on setting budgetary priorities in Austria

Recommendation

The Austrian Council for Research and Technology Development emphatically recommends higher budgetary priority on future-oriented areas such as eduction, research and innovation. Only then can the Federal Government's strategic objectives to join the leading innovation nations and consequently increase Austria's competitiveness again be achieved. The Austrian Council also urgently recommends the National Foundation for Science, Technology and Development be merged with the Austria Fund. This would allow the constant funding problems to be addressed. Synergy effects in the administrative area can also be better utilised.

Background

With increasing concern the Austrian Council for Research and Technology Development also perceives a discrepancy between the strategic objectives of the Austrian RTI policy and its achievement. This is illustrated in the following
using some prominent examples.

National Foundation for Research, Technology and Development

The most up-to-date example for this is the development of the funding of the National Foundation for Research, Technology and Development. According to the original intention of the legislators the Foundation was to have been allocated EUR 125 million annually. However, this goal was only achieved in the first three years after the Foundation was established in 2004. Since then the

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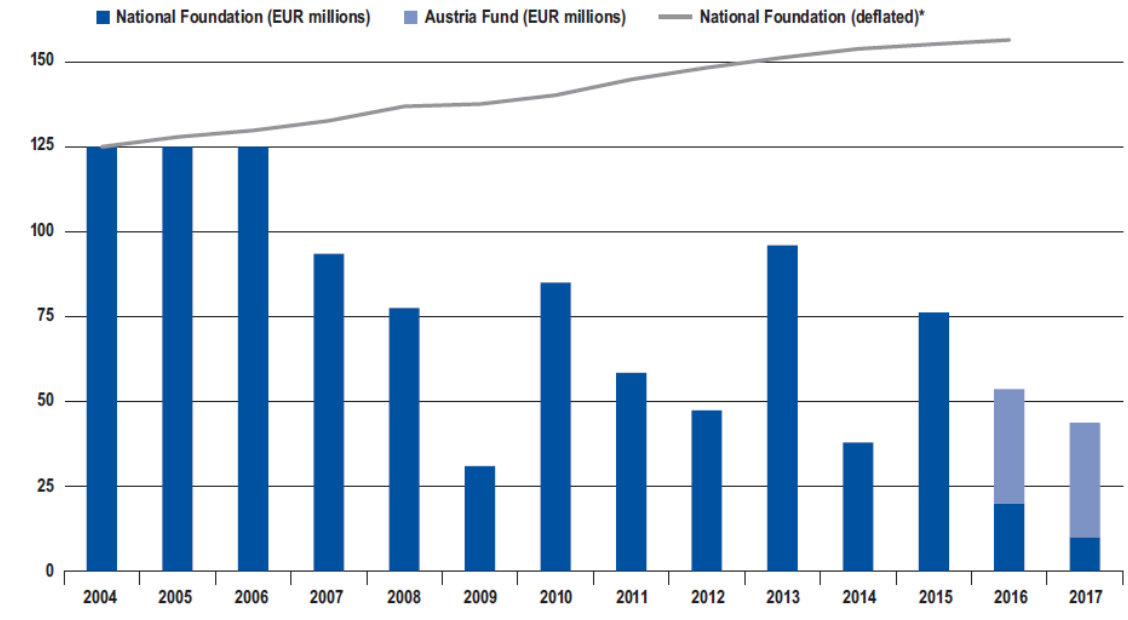
allocated funds have fallen continuously and recently dramatically (see figure 8). Not even EUR 10 million are available for 2017! As a consequence an award decision could not be made in the Foundation Council's meeting on 6 December 2016. Due to the negative interest trend, in 2015 the Minister of Finance provided an additional allocation, which resulted in a total award of EUR 76 million. Because of the continued low allocation by the National Bank and the ERP fund an additional allocation of this kind was also hoped for in 2016. However, this did not happen – the main argument being that in addition to the allocation of resources of the Austria Fund to the tune of EUR 33.7 million, an additional EUR 50 million should come from the reform of the bank levies adopted by the Cabinet on 12 July 2016. However, the approved funds from bank levies are no longer available for this year, as was seen at the end of 2016. This can only be expected (if at all) in the second half of the coming year, so that these funds will no longer actually be effective in 2017 either. This means a blatant under-funding of EUR 19.9 million for 2016 and a currently promised EUR 8 million for 2017, whereby the National Bank contributes nothing to this, although its target contribution is EUR 75 million. If thisis not massively countered, 2016 and 2017 will be lost years for the Foundation and the research in Austria that it favours.

Figure 8: Evolution of the annual allocation of funds for the Austrian National Foundation for Research, Technology and Development (in EUR millions)



Source: National Foundation RTD, own presentation. *Hypothetical funding flow with constant funding volume.

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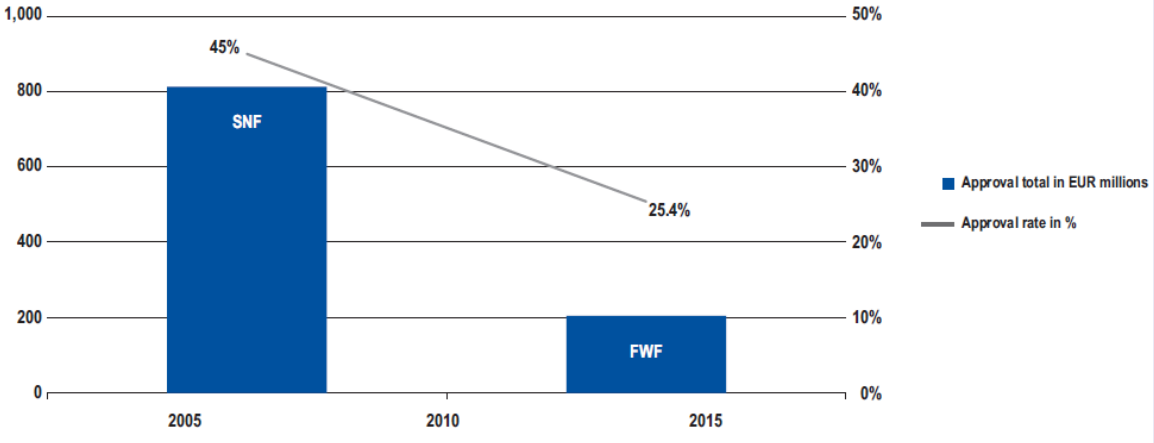
This is also compounded by the fact that even with the funds from bank levies and the allocations from the Austria Fund, the original amount of the allocations would not be achieved. And the inflation-related depreciation since 2006 hasn't been considered even once here. If we were to balance this the Foundation would have to have an annual award volume of approx. EUR 155 million today. Claim and reality therefore clash dramatically here.

The FWF Science Fund

A further example here is the development of the FWF Science Fund's budget. The Federal Government's Research, Innovation and Technology Strategy identifies clear need for action here and focuses on an expansion in the competitively awarded funds for basic research. However, if we orient ourselves on the leading innovation nations (and this is the approach followed by the RTI Strategy), we can see that Austria is far behind the innovation leaders' average. The FWF is allocated approximately EUR 200 million annually. With EUR 812 million, the Swiss National Fund has more than 4 times this at its disposal. A comparison of the competitive research funding per inhabitant with the leading nations produces a similar picture: In Austria about EUR 25 is spent per inhabitant. In Switzerland it is EUR 85, in Finland EUR 58 and in Germany about EUR 35. The ability to attract competitive research funding at national level is therefore restricted in Austria. Among other factors, this has a negative effect on the average FWF approval rate, which with individual projects is at approximately 25 per cent, while with the Swiss National Fund it is 45 per cent (see figure 9).

Figure 9: Approval Rates FWF – SNF



Source: FWF, SNF, own presentation.

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The increase in funds for the competitive funding of basic research by the FWF to EUR 290 million p.a. by 2021 adopted on 8 November 2016 as part of the Cabinet's Research Package is indeed an important signal. But there is a wide gap here between claim and reality, because the announced funds have not been budgeted even once and therefore depend on the negotiations for the Federal funding framework 2018 to 2021.

Universities

A further aspect of the basic research topic: Approx. 80 per cent of basic research in Austria is done at the universities. International comparisons (with Germany and Switzerland in particular) illustrate that the Austrian universities are dramatically under-funded. The expenditure for the entire university sector, especially for the universities, measured on GDP has stagnated for years now. The Federal Government has committed in its Work Programme for 2013 to 2018 to developing an overall strategy for the universities to improve its positioning in the international comparison. Budgetary measures, among others, should be implemented here to achieve a university expenditure quota by 2020 of 2 per cent of GDP, which takes into account a resolution of the National Council. However, if we consider the expenditure path to achieving this goal, approximately EUR 3 billion more would be required with the funding dynamic remaining as it is (see figure 10). But even if these funds were provided by 2020, which is rather unlikely on the basis of the current funding dynamic, the Austrian university sector would still only have about 75 per cent of the resources available to the Swiss university sector as things stand today. As basic research is the foundation for many innovations, neglecting tertiary education and the universities first and foremost is a massive problem. Added to this is the fact that the budget of domestic universities also includes the rents that they must pay to the federal real estate company (BIG). Among other factors, this means that rental payments must also be included in the research quota. If we also considered the delta from the missing EUR 3 billion to achieve the 2 per cent goal and the research-relevant percentage of the university budget (46 per cent), then research will require another approx. EUR 1.38 billion in 2020. Claim and reality also differ very sharply from one another in this area as well.

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Research Quota

The same pattern can also be seen with respect to the research quota. The Federal Government defined the goal of increasing the research quota to 3.76 per cent of GDP by 2020 to catch up with the quotas of the innovation leaders both in the RTI Strategy and in its Work Programme. This objective was also communicated to the EU. An additional EUR 1.6 to EUR 3.1 billion are required to actually achieve it (see figure 11). Even with the funds now hoped for from the reform of bank levies or the research package, it will not be possible to close this considerable gap to the goal of an R&D quota of 3.76 per cent of GDP by 2020. The discrepancy between objective and goal achievement is evident.

International Rankings For Innovation And Competitiveness

The overriding goal of the RTI Strategy is to become an innovation leader by 2020. But there is also a gap here between claim and reality, because instead of reducing the distance to the leading nations, Austria has lost innovation dynamic. This is reflected in Austrian performance in international rankings on innovation and competitiveness. In the European Innovation Scoreboard Austria only ranks at the bottom end of the group of followers. Austria has indeed improved by one place compared to the previous year up to number 10 in the ranking. However, a very negative dynamic was registered in recent years: In 2009, Austria was number 6 and therefore had a lead position in the follower group. Austria has since fallen back five times in a row by one place each year. Austria also falls back this year to place 20 with the Global Innovation Index (GII). The best result was achieved in 2009 with place 15. The top ten here also include the leading innovation nations, Switzerland, Sweden, Finland, Denmark and Germany. Figure 11 provides an overview of the Austrian placing in some of the most relevant rankings on innovation and competitiveness. Figure 11 shows that Austria has fallen back successively in most rankings since 2007. Even if individual rankings show positive trends in some cases, the tendency is indeed clearly negative.

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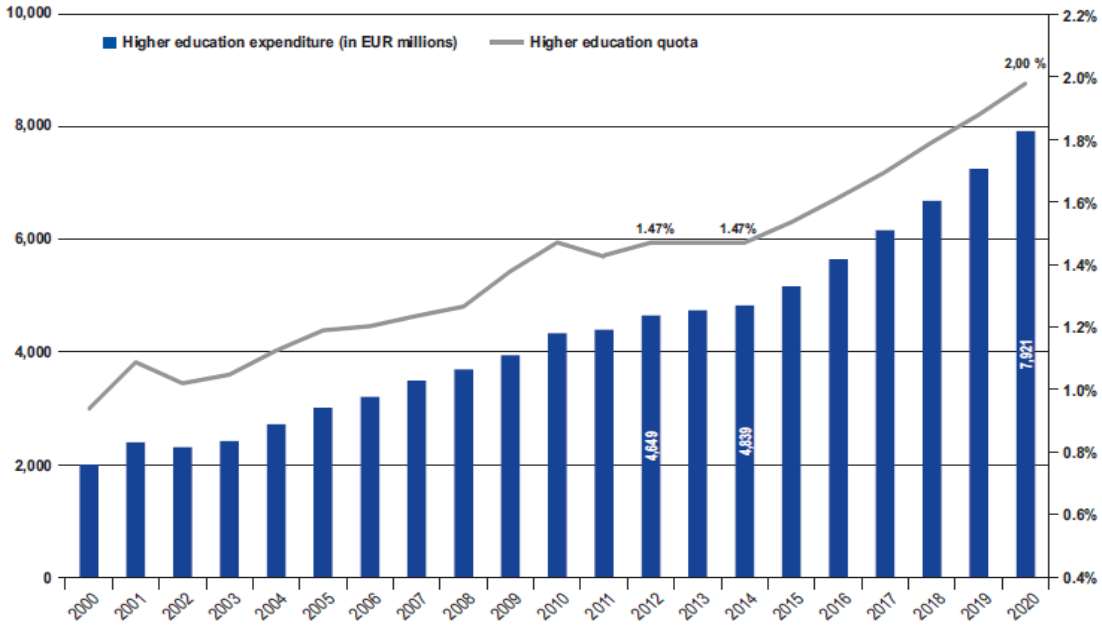
Figure 10: Evolution of higher education expenditure until 2016 and required expenditure path for the higher education quota goal, in EUR millions



Source: WIFO research quota targets 2020, update 2015.

The Austrian Council believes this is a significant contributing cause for the stagnating economic dynamic, the levelling off of exports and further increasing unemployment, which, according to current forecasts by the Austrian National Bank, will reach a record level of 6.3 per cent in the coming year.

This development runs in the opposite direction as that intended by the Federal Government with its RTI Strategy. This expresses the claim of "further developing the potential of science, research, technology and innovation in Austria to make our nation one of the most innovative in the EU by 2020, and to consequently strengthen the competitiveness of our economy and increase the prosperity of our society." The Austrian Council believes it is clear that the current measures to implement the RTI Strategy are insufficient to stay abreast of the development dynamic of the leading nations. The innovation leaders will pull further away ahead with the trend remaining as it is.

The fact therefore is that the strategy goals cannot be achieved. Despite some individual positive signals (research package, bank levies), the Austrian Council believes a systematic setting of priorities is absent, and therefore also the investments this would bring.

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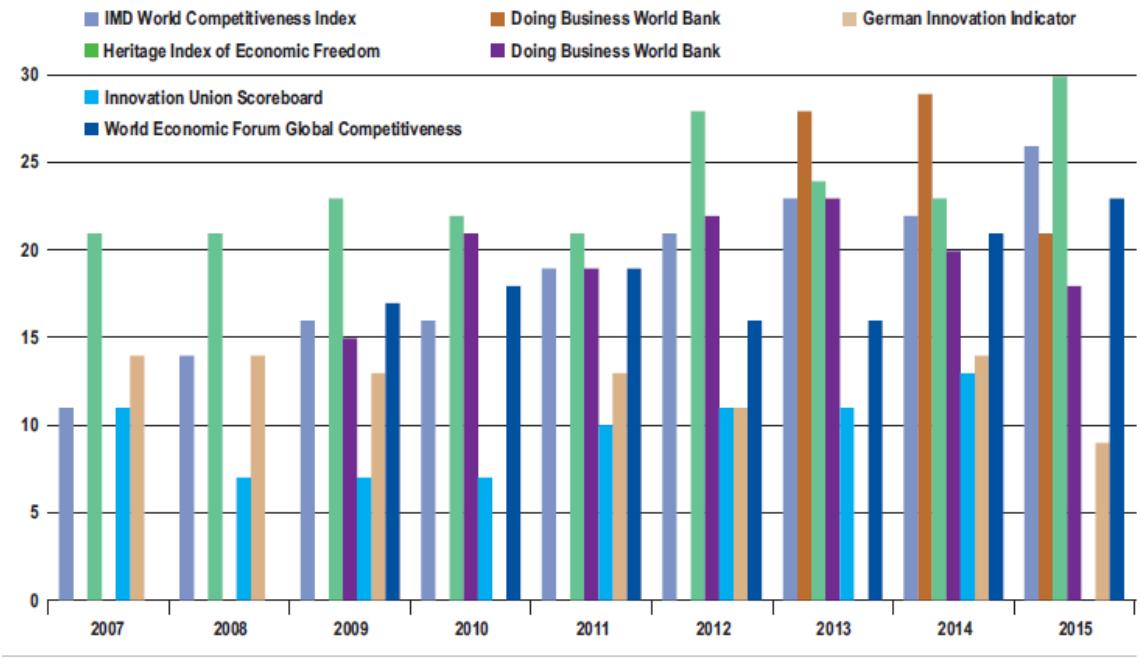
Figure 11: Austria's Performance in the context of international rankings



Source: IMD World Competitiveness Index, World Bank Doing Business, Heritage Index of Economic Freedom, INSEAD Global Innovation Index, Innovation Union Scoreboard, German Innovation Indicator, WEF Global Competitiveness Report, own presentation.

A comparison of the funding developments of the areas addressed above illustrates their stagnation and regressive development compared with the rising trend in government spending and the GDP (see figure 12).

Renewed Budgetary Prioritisation Required

The Austrian Council believes budgetary prioritisation in Austria is currently imbalanced. While there are additional funds for consuming areas such as healthcare or pensions, the budgets for future-oriented sectors such as education, science, research and innovation are stagnating. According to the Federal funding framework the budget for pensions alone (ASVG and civil servants) will rise by 2020 from 25.7 to 29 per cent. An increase in the budget for education, science, research and innovation on the other hand is not foreseen. On the contrary: The corresponding percentage of the budget will fall from the current 17.9 per cent to 17.1 per cent in 2020.

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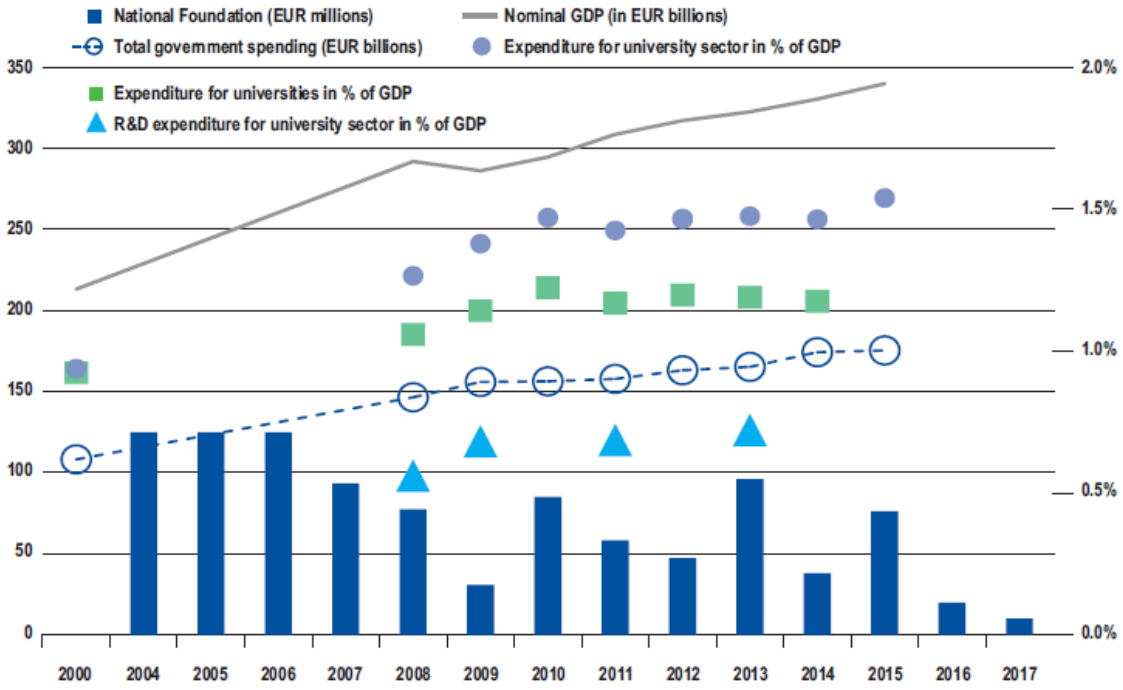
Figure 12: Evolution of Various Financing Factors



Source: Statistik Austria, surveys on research and experimental development (R&D) in Austria; National Foundation data; WIFO, research quota targets 2020, update 2015; own calculations, Austrian Council.

There is therefore an urgent requirement for an increase in funding for education, research and innovation. This is especially necessary because investments in these areas require more time to be able to fully develop their macroeconomic impact. It is therefore imperative that greater parts of the budget be freed up for the future areas of education, research and innovation. As other countries show a stronger development dynamic, continuing the status quo is not an option. If Austria does not want to fall further in global competition and lose its connection with the lead group, the topics of education, research, technology and innovation must be afforded the highest possible priority – the funding required must be provided and structural adjustments must also be made.

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